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BRIDGEPORT
ASSET MANAGEMENT INC.

Q2 2008
Investment Commentary

After a positive start to the second quarter, stock market investors threw in the towel in June, erasing earlier gains. From the beginning of the year through June 30, 2008, the S&P 500 was down 13%, the Russell 2000 dropped 10% and the Nasdaq Composite declined 14%. In Canada, the TSX Composite was actually up 4.6% year-to-date to June 30 on the strength of a handful of stocks including those in the energy sector. This outperformance in Canada was short lived however, as by the end of July the TSX Composite had fallen back into negative return territory for the year-to-date (-1.7%) as energy stocks began to decline along with the rest of the market.

These are certainly challenging economic times. On some days, one can almost feel the panic in the stock market. This is particularly true in the US where retail investors are getting hit with a double whammy. First, their homes have declined significantly in value over the last two years and many have seen their home equity wiped out entirely as result of over-borrowing. If that were not enough, some have also watched their investment portfolios diminish by as much as 20% to 30% in the last 12 months, depending on the composition of their investments.

Of course, times like these often conspire to create a vicious circle of declining asset prices. As people watch their net worth plummet, they are often forced to sell assets to raise cash to alleviate financial pressures or sometimes they succumb to emotion and sell in a panic as their situation becomes too stressful for them to handle. Either way, this dynamic often causes investment prices to drop further in the short term.

While this may be unsettling, it is not all bad news for disciplined, long term investors. When market participants begin to make decisions based on emotion as opposed to logic and reality, it creates opportunities for investors who are able to remain calm and rise above the daily noise of the latest short term release of quarterly earnings figures or economic statistics.

By focusing on analyzing business fundamentals for individual public companies, we are attempting to take advantage of the current turmoil by acquiring ownership positions in solid businesses for low prices relative to their earnings generating abilities. We are confident that this strategy will generate solid investment returns over the long term.

We would also like to highlight our view on the importance of dividends in an investment portfolio. As many of you have commented, many of the equities in our portfolios pay generous dividends. In fact, on average our equity portfolios generate close to a 5% dividend yield, meaning Bridgeport and its clients receive a 5% annual return from their equity portfolio (before share price appreciation) as a result of receiving dividend and other income payments over the year.

Most academic studies have demonstrated that dividend paying stocks tend to outperform non- dividend paying stocks over the long term. This finding also makes sense intuitively as managers of public companies which pay dividends know they must be more prudent in how they spend money given that a portion of the company's annual cash flow must be returned to investors as dividends. From an investor's perspective, dividends are also beneficial as they represent an additional source of investment return beyond share price appreciation and help to mitigate investment losses when share prices are declining.

Finally, we have enclosed a short description of each of the companies in our core equity portfolio. We encourage you to review it at your convenience so that you have an understanding of the types of businesses in which you have an ownership interest.

We wish you all the best for what remains of our short summer and encourage you to call should you have any questions.

Yours truly,

John Fisher, CPA, CFA